



Chicago Transit Authority

Audited Financial Statements
and Supplementary Information

Fiscal Years Ended December 31, 1988
and December 26, 1987

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1988/87



Chicago Transit Authority

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Audited Financial Statements
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CHICAGO TRANSIT AUTHORITY

Fiscal Years Ended December 31, 1988
and December 26, 1987

Audited Financial Statements

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REPORT OF INDEPENDENT AUDITORS

Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois

We have audited the accompanying balance sheets of the Chicago Transit Authority (an Illinois municipal corporation) as of December 31, 1988 and December 26, 1987, and the related statements of operations and accumulated deficit and changes in financial position for the fiscal years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note G the Chicago Transit Authority has restated its 1987 financial statements to properly record its estimate of the liability for injuries and damages. Accordingly, our present opinion on the 1987 financial statements has been changed to exclude the exception to the understatement of the liability for injuries and damages which was expressed in our report dated April 22, 1988.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chicago Transit Authority at December 31, 1988 and December 26, 1987, and the results of its operations and the changes in its financial position for the fiscal years then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The accompanying Schedule of Revenues and Expenses--Budget and Actual--Budgetary Basis is presented for purposes of additional analysis and submission to the Regional Transportation Authority and is not a required part of the financial statements of the Chicago Transit Authority. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to those financial statements taken as a whole.

Ernst & Whinney

Chicago, Illinois
April 26, 1989

BALANCE SHEETS

CHICAGO TRANSIT AUTHORITY

	December 31 1988	December 26 1987
ASSETS		
CURRENT ASSETS		
Cash and short-term investments--		
Notes D and G:		
Unrestricted	\$ 17,336,174	\$ 22,091,415
Restricted	<u>53,643,304</u>	<u>59,613,570</u>
	70,979,478	81,704,985
Grants receivable:		
Due from the RTA--Note E	36,780,424	42,120,022
Capital improvement projects from		
federal and state sources	<u>12,530,091</u>	<u>13,089,699</u>
	49,310,515	55,209,721
Accounts and miscellaneous grants		
receivable	8,509,218	9,782,668
Materials and supplies	51,294,709	49,985,732
Prepaid expenses and other assets	<u>2,397,846</u>	<u>2,425,643</u>
TOTAL CURRENT ASSETS	182,491,766	199,108,749
OTHER ASSETS		
Investments designated for employees'		
deferred compensation--		
Notes D and H	92,688,468	78,640,529
Other	<u>4,466,393</u>	<u>3,745,046</u>
TOTAL OTHER ASSETS	97,154,861	82,385,575
TRANSPORTATION PROPERTY AND		
EQUIPMENT--Note I		
Land	18,884,047	17,410,284
Rail system	1,093,916,966	1,074,498,943
Bus system	344,274,947	337,851,102
Other equipment	<u>66,857,404</u>	<u>61,597,355</u>
	1,523,933,364	1,491,357,684
Less allowance for depreciation	<u>(533,296,597)</u>	<u>(479,620,624)</u>
TOTAL TRANSPORTATION		
PROPERTY AND EQUIPMENT	<u>990,636,767</u>	<u>1,011,737,060</u>
TOTAL ASSETS	<u>\$1,270,283,394</u>	<u>\$1,293,231,384</u>

	December 31 1988	December 26 1987
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 39,666,507	\$ 43,481,789
Accrued payroll and current portion of vacation and workers' compensation benefits	57,939,337	56,344,471
Due City of Chicago--Note F	-	12,400,000
Deferred passenger revenue	3,095,944	5,532,081
Advances, deposits and other	12,473,199	13,136,868
Estimated current portion of injury and damage reserve--Note G	9,960,000	9,400,000
Deferred operating assistance-- Note E	18,559,496	21,058,218
TOTAL CURRENT LIABILITIES	141,694,483	161,353,427
LONG-TERM LIABILITIES		
Vacation and workers' compensation benefits, less current portion	10,088,509	11,932,937
Injury and damage reserve, less current portion--Note G	38,436,591	37,076,340
Employees' deferred compensation plan--Note H	92,688,468	78,640,529
Accrued pension costs--Note J	114,710,174	102,873,814
Other long-term liabilities	8,768,602	7,018,358
TOTAL LONG-TERM LIABILITIES	264,692,344	237,541,978
TOTAL LIABILITIES	406,386,827	398,895,405
COMMITMENTS--Note N		
FUND EQUITY		
Contributed capital--Note K	1,012,699,671	1,029,560,970
Accumulated deficit--Note L	(148,803,104)	(135,224,991)
TOTAL FUND EQUITY	863,896,567	894,335,979
TOTAL LIABILITIES AND FUND EQUITY	<u>\$1,270,283,394</u>	<u>\$1,293,231,384</u>

See notes to financial statements.

STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

CHICAGO TRANSIT AUTHORITY

	Fifty-Three Weeks Ended December 31 1988	Fifty-Two Weeks Ended December 26 1987
OPERATING EXPENSES		
Labor	\$497,260,898	\$466,343,484
Materials and supplies	56,158,660	53,441,515
Fuel for revenue equipment	11,420,574	12,369,081
Electric power for revenue equipment	21,143,493	22,687,759
Provision for injuries and damages	17,934,400	24,200,004
Maintenance and repairs, utilities, rent and other	<u>59,245,601</u>	<u>46,218,097</u>
	663,163,626	625,259,940
Provision for depreciation	56,821,485	51,941,137
Interest expense	<u>-</u>	<u>1,213,981</u>
	719,985,111	678,415,058
SYSTEM-GENERATED REVENUE		
Fare box revenue	243,998,141	222,400,095
Pass revenue	<u>79,648,409</u>	<u>78,921,121</u>
	323,646,550	301,321,216
Advertising and concessions	3,969,883	3,854,921
Interest income	6,042,037	6,022,854
Contributions from local governmental units	5,000,000	5,000,000
Sale of tax benefits--Note M	-	1,249,336
Charter service	414,845	552,379
Other revenue	<u>3,282,246</u>	<u>3,301,482</u>
	342,355,561	321,302,188
OPERATING EXPENSES IN EXCESS OF SYSTEM-GENERATED REVENUE	377,629,550	357,112,870
PUBLIC FUNDING FROM RTA--Note E		
Operating assistance	<u>311,308,065</u>	<u>297,886,589</u>
	66,321,485	59,226,281
GAIN ON SETTLEMENT OF AMOUNTS DUE TO CITY OF CHICAGO--Note F	<u>-</u>	<u>11,239,422</u>
NET LOSS	66,321,485	47,986,859
Add credit arising from transfer of provision for depreciation of transportation property and equipment acquired from grants to contributed capital	<u>52,743,372</u>	<u>47,029,891</u>
INCREASE IN ACCUMULATED DEFICIT	13,578,113	956,968
Accumulated deficit at beginning of year, as restated--Notes G and L	<u>135,224,991</u>	<u>134,268,023</u>
ACCUMULATED DEFICIT AT END OF YEAR	<u>\$148,803,104</u>	<u>\$135,224,991</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

CHICAGO TRANSIT AUTHORITY

	Fifty-Three Weeks Ended December 31 1988	Fifty-Two Weeks Ended December 26 1987
FROM OPERATIONS		
Operating expenses in excess of system-generated revenue	\$(377,629,550)	\$(357,112,870)
Add (deduct) items not affecting unrestricted cash:		
Provision for depreciation	56,821,485	51,941,137
Increase in accrued pension costs	11,836,360	8,586,433
Increase in injury and damage reserve	1,920,251	8,020,810
Increase (decrease) in accounts payable and accrued liabilities	(6,500,981)	1,270,909
Decrease (increase) in materials and supplies inventory	(1,308,977)	355,436
Decrease in grants and accounts receivable	<u>7,172,656</u>	<u>26,221,682</u>
USE OF UNRESTRICTED CASH FROM OPERATIONS WITHOUT PUBLIC FUNDING	(307,688,756)	(260,716,463)
Public funding from the RTA:		
Operating assistance	<u>311,308,065</u>	<u>297,886,589</u>
INCREASE IN UNRESTRICTED CASH FROM OPERATIONS	3,619,309	37,170,126
FINANCING AND CAPITAL PROJECT ACTIVITIES		
Retirement of working cash notes	-	(40,000,000)
Payment of pension note payable and accrued interest	-	(8,464,925)
Grants for capital improvements	35,882,073	70,647,882
Additions to transportation property and equipment, net of retirements	<u>(35,721,192)</u>	<u>(70,606,075)</u>
	160,881	(48,423,118)
OTHER SOURCES (APPLICATIONS)		
Decrease in due City of Chicago	(12,400,000)	-
Decrease in deferred operating assistance	(2,498,722)	(13,325,525)
(Increase) decrease in restricted cash	5,980,608	(21,875,467)
Decrease in advances and deposits	(663,669)	(2,749,348)
Increase (decrease) in other long-term liabilities	1,750,244	(16,191,060)
Gain on settlement with City of Chicago	-	11,239,422
Other	<u>(693,550)</u>	<u>3,068,112</u>
	<u>(8,525,089)</u>	<u>(39,833,866)</u>
DECREASE IN UNRESTRICTED CASH	(4,744,899)	(51,086,858)
Unrestricted cash at beginning of year	<u>22,091,415</u>	<u>73,178,273</u>
UNRESTRICTED CASH AT END OF YEAR	<u>\$ 17,346,516</u>	<u>\$ 22,091,415</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CHICAGO TRANSIT AUTHORITY

Fiscal Years Ended December 31, 1988
and December 26, 1987

NOTE A--ORGANIZATION DATA

The Chicago Transit Authority ("CTA") was formed in 1945 pursuant to the Metropolitan Transportation Authority Act passed by the Illinois legislature. The CTA was established as an independent governmental agency (an Illinois municipal corporation) "separate and apart from all other government agencies" to consolidate Chicago's public and private mass transit carriers. The City Council of the City of Chicago has granted the CTA the exclusive right to operate a transportation system for the transportation of passengers within the City of Chicago.

The Regional Transportation Authority Act ("Act") provides for the funding of public transportation in the six-county region of Northeastern Illinois. The Act establishes a regional oversight board (Regional Transportation Authority ("RTA")) and three service boards (Chicago Transit Authority, Commuter Rail Board and Suburban Bus Board). The Act requires, among other things, that the RTA approve the annual budget of the CTA, that the CTA obtain agreement from local governmental units to provide an annual monetary contribution of at least \$5,000,000 for public transportation and that the CTA (collectively with the other service boards) finance at least 50% of their operating costs, excluding depreciation and certain other items, from system-generated sources.

Financial Reporting Entity: In conformance with Governmental Accounting Standards Board standards, the CTA includes in its financial statements all funds over which the Chicago Transit Board exercises oversight responsibility. Oversight responsibility is defined to include the following considerations: selection of governing authority; designation of management; ability to significantly influence operations; accountability for fiscal matters; the scope of an organization's public service, and/or special financing relationships.

Based on the application of the above criteria, the fund established for the employees' pension plan has been determined not to be part of the reporting entity. The fund is a legal entity separate and distinct from the CTA. It is administered by its own oversight committee, of which the CTA appoints half the members, and over which the CTA has no direct authority. Accordingly, the accounts of this fund are not included in the accompanying financial statements.

CHICAGO TRANSIT AUTHORITY

NOTE A--ORGANIZATION DATA--Continued

The CTA is not considered a component unit of the RTA because, based on the application of the criteria described in the second preceding paragraph, the RTA does not exercise oversight responsibility in relation to the CTA. Although the RTA is required by the Act to approve the CTA's annual budget, the Act defines the sources of revenues to the RTA and the method of allocation to the CTA. Further, governing authority is entrusted to the Chicago Transit Board comprised of four directors appointed by the mayor of Chicago and three directors appointed by the governor of the State of Illinois.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The operations of the CTA are accounted for on a proprietary fund basis. This basis is used when operations are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges and the periodic determination of revenues earned, costs incurred, and net income is appropriate.

Basis of Accounting and Measurement Focus: The accounts of the CTA are reported using the "capital maintenance" (cost of services) measurement focus and the accrual basis of accounting. Under the "capital maintenance" measurement focus, all assets and liabilities are included on the balance sheet. Fund equity consists of contributed capital and accumulated deficit. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Investments: Short-term investments are stated at cost, which approximates market. Adjustments are made to cost, for any premium or discount, which are amortized over the maturity of the investment. Investments designated for employees' deferred compensation benefits are stated at aggregate fair market value.

Materials and Supplies: Materials and supplies inventories are stated at the lower of cost or market value. The CTA uses the average cost method to determine the cost of such inventories.

Transportation Property and Equipment and Depreciation: Transportation property (including major improvements) and equipment are recorded at cost. The cost of maintenance and repairs is charged to operations as incurred.

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

The provision for depreciation of transportation property and equipment is calculated under the straight-line method at amounts based on the respective estimated useful lives of major asset classifications, as follows:

	<u>Years</u>
Buildings	45
Elevated structures, track, tunnels and power system	20-50
Transportation vehicles:	
Motor buses	12
Rail cars	30-33
Signals	20
Other equipment	10

Included in the transportation system operated by CTA are certain facilities owned by others. The CTA has the exclusive right to operate these facilities under the terms of the authorizing legislation and various long-term leases and other agreements.

Compensated Absences: Substantially all employees receive compensation for vacations, holidays, illness and certain other qualifying absences. The number of days compensated for the various categories of absence is based generally on length of service. Vacation leave which has been earned but not paid has been accrued in the accompanying financial statements. Compensation for holiday, illness and other qualifying absences is not accrued in the accompanying financial statements because rights to such compensation amounts either do not accumulate or they do not vest.

Retirement Plan: The CTA has a retirement plan for all nontemporary full-time employees with service greater than one year. Pension expense recorded by the CTA includes provision for current service costs and the amortization of past service cost over a period of approximately 30 years.

Sale of Tax Benefits: The CTA records, as current income, the net proceeds received from the sale of tax benefits of buses and rail cars.

Reclassifications: Certain amounts in the 1987 financial statements have been reclassified to conform with the 1988 presentation.

CHICAGO TRANSIT AUTHORITY

NOTE C--BUDGET AND BUDGETARY BASIS OF ACCOUNTING

The CTA is required by the Regional Transportation Authority Act ("Act") to submit for approval an annual budget to the Regional Transportation Authority ("RTA") by November 15 prior to the commencement of each fiscal year. The Metropolitan Transportation Authority Act requires that no expenditures for operations and maintenance in excess of budget be made without approval of the Board of Directors.

The budget is prepared on a basis consistent with generally accepted accounting principles except for the exclusion of certain expenses which do not qualify under the Act for public funding, principally depreciation expense and pension expense in excess of pension contributions. The CTA's operating expenses on a budgetary basis exceeded the budgeted amount of \$653,623,924 by \$39,698. All annual appropriations lapse at fiscal year-end.

Annual RTA appropriations do not lapse, as the RTA funds the budgets of the service boards rather than the actual deficits. Favorable variances from budget remain as deferred operating assistance to the operating entity, and can be used in future years with budgetary approval.

The RTA approves the proposed budget based on a number of criteria:

1. That the budget is in balance with regard to anticipated revenues from all sources including operating subsidies and the costs of providing services and funding operating deficits of encumbrances incurred in prior periods, including principal and interest due on outstanding indebtedness;
2. That the budget provides for sufficient cash balances to pay with reasonable promptness all costs and expenses incurred;
3. That the budget provides for the CTA to meet its required system-generated revenue recovery rates; and
4. That the budget is reasonable, prepared in accordance with sound financial practices and complies with such other RTA requirements as the RTA Board of Directors may establish.

The RTA monitors the CTA's performance against the budget on a quarterly basis and if, in the judgment of the RTA, this performance is not substantially in accordance with CTA's budget for such period, the RTA shall so advise the CTA and the CTA must, within the period specified by the RTA, submit a revised budget incorporating such results, in order to bring the CTA into compliance with the budgetary requirements listed above.

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY

NOTE D--CASH AND INVESTMENTS

At December 31, 1988, the carrying amount of the CTA's deposits was an overdraft of (\$155,722) and the balance per the banks was \$10,555,135. Of those bank balances, \$2,422,556 was covered by federal depository insurance and \$8,132,579 was uninsured. The entire uninsured amount was covered by collateral held by the CTA's custodial bank in the CTA's name.

Chapter 85, section 902 of the Illinois Revised Statutes authorizes the CTA to invest in obligations of the United States Treasury and United States agencies, direct obligations of any bank, commercial paper rated within the three highest classifications set by two standard rating services, or money market mutual funds investing in obligations of the United States Treasury and United States agencies.

The CTA's short-term investments at year-end were entirely covered by a master trust agreement with a custodial bank. Under the terms of this agreement, the custodial bank or its agent holds all instruments in the CTA's name.

Excluded from the master trust agreement are investments in pools (\$92,688,468) managed by a third-party administrator under the Employees' Deferred Compensation Plan Agreement.

The CTA's cash and short-term investments at year-end are as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>
Repurchase agreements	\$35,690,000	\$35,854,335
Commercial paper	29,371,452	29,371,452
United States Treasury securities	<u>6,073,748</u>	<u>5,966,280</u>
	71,135,200	<u>\$71,192,067</u>
Cash disbursements in excess of deposits	<u>(155,722)</u>	
	<u>\$70,979,478</u>	

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY

NOTE D--CASH AND INVESTMENTS--Continued

Restricted cash and short-term investments have been segregated into the following amounts:

	<u>1988</u>	<u>1987</u>
Deferred operating assistance from RTA	\$18,559,496	\$21,058,218
Monies committed for capital expenditures	8,772,015	9,913,081
Due to governmental units	-	6,849,121
Due to funding agencies	3,140,607	3,140,607
Damage reserve--Note G	<u>23,171,186</u>	<u>18,652,543</u>
	<u>\$53,643,304</u>	<u>\$59,613,570</u>

NOTE E--PUBLIC FUNDING FROM THE REGIONAL TRANSPORTATION AUTHORITY

As discussed in Note A, the Regional Transportation Authority Act ("Act") establishes a regional oversight board (Regional Transportation Authority ("RTA")). The Act also defines the sources of funding to the RTA. Under the Act, each service board is entitled to a portion of the funds received by RTA. The allocation of these funds to each service board is based on various methods as defined in the Act. For fiscal years 1988 and 1987, the CTA's allocations of funds received from the RTA were \$309,799,000 and \$285,854,000, respectively, which were used to substantially fund the 1988 and 1987 operating deficits. In addition, the CTA used \$1,509,065 and \$12,032,589 of deferred operating assistance received in prior years to fund the 1988 and 1987 operating deficits, respectively.

NOTE F--DUE CITY OF CHICAGO

On August 1, 1981, the City of Chicago ("City") and the CTA entered into a Financial Assistance Agreement ("Agreement") under which the City agreed to grant to the CTA \$20,000,000. Grants received under the Agreement were to be used by the CTA in providing public transportation services during the grant period. In accordance with the Agreement, the City could demand repayment of this amount in the event that the CTA's cash resources exceeded existing or projected cash requirements. During 1982, \$3 million of these grants were repaid by the RTA on behalf of the CTA.

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY .

NOTE F--DUE CITY OF CHICAGO--Continued

On February 23, 1988, the City and the CTA entered into a settlement agreement totaling \$12,400,000, whereby the CTA agreed to pay the City \$5,760,578 and the City has agreed to forgive repayment of the remaining \$11,239,422, which gain has been presented separately in the 1987 statement of operations. Further, under certain operating and lease agreements, the CTA was obligated to make payments for the purpose of reimbursing the City for expenditures made in equipping related facilities. In 1987, the CTA had accrued rent of \$6,639,422 due to the City under these agreements. On February 23, 1988, as part of the settlement agreement, the City and the CTA agreed to the payment of this amount and the City waived its rights to receive future rent due under these agreements.

NOTE G--DAMAGE RESERVE

Chapter 111 2/3, section 339 of the Illinois Revised Statutes requires the CTA to establish a damage reserve in order to provide for the adjustment, defense, and satisfaction of all suits, claims, demands, rights and causes of action and the payment and satisfaction of all judgments entered against the CTA for damages caused by injury to or death of any person and for damages to property resulting from the construction, maintenance and operation of the transportation system.

The statute also requires the CTA to separately fund the damage reserve. In recent years the CTA has sought to conserve its cash resources and protect against delays in the receipt of operating assistance; therefore, transfers from unrestricted cash into the damage reserve fund were made only when required to meet current obligations. It is the present policy of the CTA to fund the provision for the damage reserve (\$4,518,643 increase in damage reserve fund in 1988). At December 31, 1988 and December 26, 1987, unrestricted cash and short-term investments amounting to \$25,225,405 and \$27,823,797, respectively, would need to be transferred to restricted cash and short-term investments in order to separately fund the damage reserve. See Note C regarding amounts maintained in this fund.

The 1987 financial statements have been restated to properly record the estimate of the liability for injuries and damages. The effect of this restatement was to increase the injury and damage reserve and accumulated deficit as of December 26, 1987 by \$7,000,000.

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY

NOTE G--DAMAGE RESERVE--Continued

The CTA has entered into a Loss Financing Plan ("Plan") with the RTA that permits the CTA to receive monies necessary to pay damages and losses in excess of \$2.5 million up to a maximum of \$47.5 million from a fund established by the RTA. The CTA is obligated to reimburse the fund for any damages paid; however, in no event shall reimbursement payments including interest exceed \$3.5 million in any one year. As of December 31, 1988, the CTA has not used the Plan to pay any damages or losses.

NOTE H--EMPLOYEES' DEFERRED COMPENSATION PLAN

The CTA offers its employees a deferred compensation plan created in accordance with Internal Revenue Code section 457. The plan, available to all CTA employees, permits deferral of a portion of compensation until future years. The deferred amount is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the CTA (without being restricted to the provisions of benefits under the plan), subject only to the claims of the CTA's general creditors. Participants' rights under the plan are equal to those of general creditors of the CTA in an amount equal to the fair market value of the deferred amount for each participant.

It is the opinion of the CTA's plan counsel that the CTA has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The CTA believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

Participating employees may request that their deferred compensation be invested, at the discretion of the CTA, in any of several investment funds. The recorded amounts are stated at aggregate fair market value of such investment funds. All costs and expenses of administering the plan are borne by the participants.

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY

NOTE H--EMPLOYEES' DEFERRED COMPENSATION PLAN--Continued

Plan activity was as follows:

	<u>1988</u>	<u>1987</u>
Balance at beginning of year	\$78,640,529	\$66,643,661
Additions (deductions):		
Employee contributions	12,687,509	10,431,728
Plan earnings	6,827,018	6,123,713
Administrative expenses	(93,812)	(107,309)
Employee withdrawals	<u>(5,372,776)</u>	<u>(4,451,264)</u>
Balance at end of year	<u>\$92,688,468</u>	<u>\$78,640,529</u>

NOTE I--TRANSPORTATION PROPERTY AND EQUIPMENT

As of December 31, 1988, the CTA has capital grant contracts with the federal Department of Transportation, Urban Mass Transportation Administration (DOT-UMTA) and with the State of Illinois Department of Transportation (Illinois DOT) under the Transportation Bond Act for approximately \$1.6 billion. Under these contracts the CTA has acquired additional rapid transit cars and is constructing, renewing and improving various portions of track structures and related operating facilities and systems. It is anticipated that DOT-UMTA will finance approximately 80% of the total cost of these projects, with the balance of the cost being financed principally by the Illinois DOT. Through December 31, 1988, approximately \$1.2 billion has been expended by the CTA under these capital grant contracts, and substantial commitments have been entered into for the remainder.

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY

NOTE I--TRANSPORTATION PROPERTY AND EQUIPMENT--Continued

Additional information with respect to transportation property and equipment of the CTA is as follows:

	1988	1987
Funding source:		
Federal (DOT-UMTA)	\$1,029,014,130	\$1,003,536,301
State (principally Illinois DOT)	239,653,495	235,843,993
City of Chicago	111,799,720	111,852,586
CTA (generally prior to 1973)	118,885,782	121,244,092
Other	<u>24,580,237</u>	<u>18,880,712</u>
	<u>\$1,523,933,364</u>	<u>\$1,491,357,684</u>
Type of property:		
Land	\$ 18,884,047	\$ 17,410,284
Buildings	250,228,850	242,208,864
Elevated structures, tracks, tunnels and power system	361,647,853	351,127,571
Transportation vehicles	737,450,943	735,735,799
Signals	88,864,267	83,277,811
Other equipment	<u>66,857,404</u>	<u>61,597,355</u>
	<u>\$1,523,933,364</u>	<u>\$1,491,357,684</u>

NOTE J--DEFINED BENEFIT PENSION PLAN

Plan Descriptions: The Employees' Retirement Plan ("Plan") is a single-employer public employee retirement system established in 1949 and governed by the terms of the employees' collective bargaining agreement. The CTA's payroll for employees covered by the Plan for 1988 was \$361,042,130; the CTA's total payroll was \$398,579,658. All nontemporary full-time employees who have completed 12 months of continuous service are covered by the Plan. Employees who retire at or after 65 (or after completion of 25 years of continuous service with full benefits or at age 55 with reduced benefits) are entitled to an annual retirement benefit payable monthly for life, in an amount based upon compensation and credited service. The Plan also provides death, disability and hospitalization benefits.

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY

NOTE J--DEFINED BENEFIT PENSION PLAN--Continued

Funding Status and Progress: The amounts shown in the table below as the "pension benefit obligation" are standard disclosure measures of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The standard measure is intended to help users assess the funding status of the systems on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the systems.

The pension benefit obligation for the Plan was computed as part of the actuarial valuation performed as of January 1, 1988. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.25% per year (b) projected salary increases of 5% per year and (c) no postretirement benefit increases.

The total unfunded pension benefit obligation applicable to the Employees' Retirement Plan at January 1, 1988 is disclosed in the table below:

	<u>Employees' Retirement Plan</u>
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$329,250,000
Current employees:	
Accumulated employee contributions including allocated investment earnings	127,753,000
Employer-financed vested	333,630,000
Employer-financed nonvested	<u>82,303,000</u>
TOTAL PENSION BENEFIT OBLIGATION	872,936,000
Net assets available for benefits, at current value	<u>740,570,000</u>
UNFUNDED PENSION BENEFIT OBLIGATION	<u>\$132,366,000</u>

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY

NOTE J--DEFINED BENEFIT PENSION PLAN--Continued

Contributions Required and Contributions Made: The pension plan contribution requirement was not actuarially determined. The funding policy for the Employees' Retirement Plan was established by the terms of the employees' collective bargaining agreement. The CTA was required to contribute a stated percentage of covered payroll as follows:

<u>Period</u>	<u>Contribution Percentage</u>
December 1, 1988 through December 31, 1988	7.5%
December 1, 1987 through December 1, 1988	6.5
Prior to December 1, 1987	6.0

Participants in the Plan with service greater than one year were required to contribute a stated percentage of their compensation as follows:

<u>Period</u>	<u>Contribution Percentage</u>
December 1, 1988 through December 31, 1988	3.0%
December 1, 1987 through December 1, 1988	1.5
Prior to December 1, 1987	1.0

The CTA's contribution to the plan for fiscal 1988 was \$25,787,591 (7.1% of current covered payroll); CTA employees contributed \$5,559,277 (1.5% of current covered payroll).

As determined by actuarial computations performed for 1988 and 1987, the contributions based on the above percentages are not adequate to amortize each component of the current unfunded past service liability over a 30-year period. The accumulated shortfall from the contribution deficiency including interest, for the two-year period as computed by the actuary, totaled \$30,424,000 as of January 1, 1988.

CHICAGO TRANSIT AUTHORITY

NOTE J--DEFINED BENEFIT PENSION PLAN--Continued

Trend Information: Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information for the Employees' Retirement Plan may be found in the Plan's annual report. This information consists of:

- Net assets available for benefits, expressed as percentages of the pension benefit obligation applicable to the entity's employees. Analysis of this percentage over time indicates whether the retirement system is becoming financially stronger or weaker.
- Unfunded pension benefit obligation, expressed as percentages of annual covered payroll. Showing unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes.
- Employer contributions expressed as percentages of annual covered payroll. For the Employees' Retirement Plan, these contributions were not made in accordance with actuarially determined requirements.

The following table presents the information discussed in the preceding paragraph:

	<u>1988</u>	<u>1987</u>	<u>1986</u>
Net assets available for benefits (at current value) expressed as a percentage of the pension benefit obligation (percentage funded)	85 %	95%	*
Unfunded pension benefit obligation expressed as a percentage of annual covered payroll	37	12	*
Employer contributions expressed as a percentage of annual covered payroll	7.1	6	3.4%

*Information not available for periods prior to adoption of Governmental Accounting Standards Board Statement No. 5, "Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers."

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY

NOTE K--CONTRIBUTED CAPITAL

Donated assets or grants for the acquisition of capital assets are recorded as contributions of capital. Depreciation recognized on assets donated or acquired through capital grants has been applied to the appropriate contributed capital account.

Changes in contributed capital are as follows:

	Contributed Capital			
	Federal	State	Other	Total
Balance at				
December 27, 1986	\$662,958,743	\$167,844,086	\$175,140,150	\$1,005,942,979
Transfer of provision for depreciation of transportation property and equipment acquired from grants	(36,814,999)	(8,634,688)	(1,580,204)	(47,029,891)
Contributions for transportation property and equipment additions and improvements	<u>51,216,059</u>	<u>12,420,615</u>	<u>7,011,208</u>	<u>70,647,882</u>
Balance at				
December 26, 1987	677,359,803	171,630,013	180,571,154	1,029,560,970
Transfer of provision for depreciation of transportation property and equipment acquired from grants	(41,245,317)	(9,562,373)	(1,935,682)	(52,743,372)
Contributions for transportation property and equipment additions and improvements	<u>27,122,828</u>	<u>4,101,687</u>	<u>4,657,558</u>	<u>35,882,073</u>
Balance at				
December 31, 1988	<u>\$663,237,314</u>	<u>\$166,169,327</u>	<u>\$183,293,030</u>	<u>\$1,012,699,671</u>

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY

NOTE L--ACCUMULATED DEFICIT

The accumulated deficit primarily represents operating costs not eligible for reimbursement under the RTA agreement, principally consisting of accrued pension costs in excess of pension contributions and depreciation expense on CTA funded assets. It is anticipated that the accumulated deficit will be reduced in future years as funding of pension liabilities exceeds the amount of pension expense provided.

The 1987 financial statements have been restated to properly record the estimate of the liability for claims and lawsuits. The effect of this restatement was to increase both the injury and damage reserve and the accumulated deficit as of December 27, 1986 by \$7,000,000. Such adjustment did not affect results of operations for 1987 and 1988.

NOTE M--SALE OF TAX BENEFITS

From 1982 through 1987, the CTA entered into agreements with outside entities to sell and lease back, for tax purposes, a percentage interest in 645 rail cars and 726 buses. The transactions represent the sale of future tax benefits relating to depreciation of revenue vehicles under the guidelines of section 168(f)(8) of the Internal Revenue Code.

Under the terms of the agreements, should any revenue vehicle identified in the contract be retired from service prior to the end of the lease period, a portion of the proceeds would be required to be refunded to the buyer.

NOTE N--CONTINGENCIES

The CTA is party to numerous legal proceedings arising in the normal course of operations. Resolution of all legal proceedings is not, in the opinion of management, likely to have a material adverse impact on the CTA's financial position.

SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL--BUDGETARY BASIS

CHICAGO TRANSIT AUTHORITY

Fiscal Year Ended December 31, 1988

	Actual-- Budgetary Basis	Budget	Variance Favorable (Unfavorable)	Percent Variance Favorable (Unfavorable)
OPERATING EXPENSES				
Labor	\$487,760,898	\$476,643,779	\$(11,117,116)	(2.3%)
Materials and supplies	56,158,660	55,574,947	(583,712)	(1.1)
Fuel for revenue equipment	11,420,574	14,980,828	3,560,254	23.8
Electric power for revenue equipment	21,143,493	26,926,871	5,783,378	21.5
Provision for injuries and damages	17,934,400	17,934,400	-	-
Maintenance and repairs, utilities, rent, and other	59,245,601	61,563,099	2,317,498	3.8
	<u>653,663,626</u>	<u>653,623,924</u>	<u>(39,698)</u>	-
SYSTEM-GENERATED REVENUES				
Fare box revenue	243,998,141	236,475,129	7,523,012	3.2
Pass revenue	79,648,409	82,603,871	(2,955,462)	(3.6)
	<u>323,646,550</u>	<u>319,079,000</u>	<u>4,567,550</u>	1.4
Advertising and concessions	3,969,883	3,719,000	250,883	(10.8)
Interest income	6,042,037	4,984,000	1,058,037	21.2
Contributions from local government units	5,000,000	5,000,000	-	-
Charter service	414,845	300,000	114,845	38.3
Other revenue	3,282,246	4,407,000	(1,124,754)	-
	<u>342,355,561</u>	<u>337,489,000</u>	<u>4,866,561</u>	1.4
OPERATING EXPENSES IN EXCESS OF SYSTEM-GENERATED REVENUE	311,308,065	316,134,924	4,826,863	1.5
PUBLIC FUNDING FROM RTA	<u>311,308,065</u>	<u>316,134,924</u>	<u>(4,826,863)</u>	1.5
NET LOSS--BUDGETARY BASIS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS				
Provision for depreciation	\$ 56,821,485			
Pension expense in excess of pension contributions	<u>9,500,000</u>			
NET LOSS--GAAP BASIS	<u>\$ 66,321,485</u>			
(System-generated revenue as a percent of operating expenses)	<u>52.37%</u>	<u>51.63%</u>		

